TORBAY COUNCIL

Report No: **MD/12/04**

Title: **Risk Management – Assessment of Risks**

To: Executive on 18th May 2004

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1. Purpose

1.1 To develop the Council's work in effectively managing risks by defining a corporate "risk appetite" and a consistent methodology for assessing risks.

2. Relationship to Corporate Priorities

2.1 Risk Management is a key part of the Priority of "Corporate Ability – Getting back on track"

3. Recommendations

3.1 That the following statement be approved as the Council's corporate "Risk Appetite":

"Torbay Council believes that risk taking is an inherent part of being a progressive organisation. The Council embraces the taking of risks in an effectively managed way where this is justified by the potential benefits to the community. Where risk-taking has been managed appropriately but results in adverse consequences, the Council will use this as an opportunity to learn and improve."

3.2 That the Risk Assessment Methodology set out in Appendix 1 to this Report be approved.

3.3 That the Assistant Managing Director be authorised to amend the Council's Risk Management Policy, Strategy and Implementation Plan in the light of 3.1. and 3.2 above.

4. Reason for Recommendation

4.1 To develop the Council's work in effectively managing risks by defining a corporate "risk appetite" and a consistent methodology for assessing risks.

5. Background

5.1 The Audit Commission Management Paper *Worth the Risk – Improving Risk Management in Local Government (2001)* defines *Risk* as "the threat that an event or action will adversely affect an organisation's ability to achieve its objectives and to successfully execute its strategies". It goes on to define *Risk Management* as "the process by which risks are identified, evaluated and controlled". Good Risk management is a key element of good corporate governance.

5.2 The underlying principles of good Risk Management are based on it providing value for money. The Audit Commission are clear that it makes sound business sense for councils to manage risk effectively and to embed internal control and risk awareness into the processes used in prioritising objectives and delivering services. The effective management of risk can lead to better service delivery; more efficient use of resources; better project management; and help minimise waste, fraud and poor value for money

5.3 The Corporate Governance Inspection Report in 2002 concluded that Torbay's approach to Risk Management was "a weakness". The report states that at the time of the Inspection there was: " little understanding or attention being given to the development of an overall strategy or building awareness and procedures to enable the council to assess and manage risk proactively". Recommendation RM3 then set out what the Council needed to do to address this area of weakness:

"RM3: The council needs to ensure that it takes decisions and deploys resources having an explicit regard to risk assessment. It should:

"(a) Develop and articulate clearly an approach to risk management to be employed in both its decision and policy making processes;

"(b) Demonstrate the use of risk management as an integral process in determining relative priorities across directorates and to free up resources in those areas where a higher level of risk is deemed acceptable. … …"

5.4 Since 2002 the Council has put in place a Risk Management Policy, Risk Management Strategy and Risk Management Implementation Plan. The progress assessment carried out by the Audit Commission in the autumn of 2003 found that in relation to Risk Management: "The council has invested well in this area and has firm plans to put the necessary building blocks in place. It is too soon to assess the impact of a broader approach to risk management on the council's decision making and working practices, which will require ongoing effort".

5.5 In the Council's Risk Management Policy the corporate attitude or "appetite" towards Risk is described as:

"Torbay Council views risk as a balance between opportunity for gain and opportunity for loss and accepts that some degree of risk is desirable for an innovative organisation. It is the policy of the Council to ensure that the exposure of the Council to all forms of adverse risk is maintained within acceptable limits."

5.6 Whilst this statement is fine, as far as it goes, it does not address how the Council behaves when a risk actually occurs. Accepting a risk means that you are prepared to see the risk actually occurring because it is judged to be worth accepting the chance of that happening in view of the anticipated benefits arising from the proposed course of action. Sometimes the "bad" thing that is not desired will happen. However, it is important that when this happens the Council sees this as an opportunity to learn and improve, rather than a chance to apportion blame and criticise people.

5.7 It is therefore recommended that the Executive approve as its Risk Appetite the following statement:

"Torbay Council believes that risk taking is an inherent part of being a progressive organisation. The Council embraces the taking of risks in an effectively managed way where this is justified by the potential benefits to the community. Where risk-taking has been managed appropriately but results in adverse consequences, the Council will use this as an opportunity to learn and improve."

5.8 There seems a degree of consensus that at both local and national governmental levels decisions on risk are often taken on the basis of incomplete information (including information about levels of uncertainty). This can be because the decision has not been taken at the appropriate level, or there is a failure to take all the relevant factors into account. In order to address these issues it is important to have a consistent corporate approach to assessing risks and clear rules as to when it is acceptable for an officer to take the decision to accept a risk and when that decision must be referred to Members. To achieve these objectives it is necessary to adopt a Corporate Risk Assessment

Methodology. A recommended methodology, developed by the Risk Management Officer Group, is set out in Appendix 1.

5.9 The recommended methodology provides a means of assessing risks consistently to enable fair comparisons to be made of the diverse risks occurring across the Council. This will help Members and employees prioritise actions and the allocation of resources.

5.10 The methodology defines ***risk*** as anything that could affect the ability of a service to meet its business objectives. Risks include bad things that do happen and good things that don't happen. The methodology is to be used in assessing corporate risks rather than day-to-day operational risks. It is not to be used in assessing, for example, the appropriateness of a care package for an individual. It is to be used, for example, in assessing the risks that may affect the ability of Adult Services to meet the objectives in its Business Plan.

5.11 Risk is measured through a combination of ***likelihood*** of occurrence and severity of ***impact***. The methodology gives numerical values to six levels (1 to 6) of likelihood (from "almost impossible" to "very significant") and four levels (1 to 4) of impact (from "negligible" to "catastrophic"). The higher the numerical value the greater the likelihood or impact. Multiplying the numerical values for likelihood and impact produces a numerical value for the ***Initial Risk*** (between 1 (1 x1) and 24 (6 x 4)). The levels of likelihood and impact are all described in the methodology to help achieve corporate consistency in what are largely subjective judgements. Impact is also assessed under six headings (service, legal (including equalities), reputational, financial, strategic and environmental) (again, described in the methodology). Where a proposal involves multiple risks, each must be individually assessed.

5.12 The methodology explains that applying ***control measures*** may reduce the likelihood and/or the impact of the Initial Risk. For example, decreasing the frequency of a high-risk activity will reduce the likelihood of occurrence, whilst insuring against a risk will reduce the potential financial impact on the Council. Appropriate control measures must always be considered when assessing risks. The higher the Initial Risk, the more rigorous must be the consideration and application of control measures.

5.13 Multiplying the numerical values for likelihood and impact ***after*** applying control measures produces a numerical value for the ***Final Risk*** (between 1 (1 x1) and 24 (6 x 4)). Where a proposal involves multiple risks the highest figure determines the overall Final Risk.

5.14 The methodology then explains that it is now necessary to make the decision as to whether or not to proceed with the proposal, that is to say, whether or not to ***accept*** the Final Risk. This judgement will depend upon the level of benefit to be derived compared with the risk to be accepted.

5.15 In the recommended methodology Final Risks are split numerically into three categories. This determines who may take the decision to accept the risk and proceed. Service Managers may accept ***Low Risks*** (1 to 7). Directors and Assistant Directors, in consultation with an Executive Member, may accept ***Intermediate Risks*** (8 to 14). However, only the Executive, Council or a Committee may authorise acceptance of ***High Risks*** (15 to 24). This is summarised in the ***Risk Matrix*** overleaf:

L i k e l i h o o d	6	6	12	18	24
	5	5	10	15	20
	4	4	8	12	16
	3	3	6	9	12
	2	2	4	6	8
	1	1	2	3	4
		1	2	3	4
		I m p a c t			

Key

Final Risk Score	Final Risk Category	Decision Maker
1-7 (Green)	Low	Service Manager
8-14 (Yellow)	Intermediate	Director or AD in consultation with Executive Member
15-24 (Red)	High	Council/Executive/Committee

5.16 If Members are to approve the recommended Risk Assessment Methodology they need to be satisfied on the following issues:

1. That the Risk Appetite recommended in paragraph 5.7 is appropriate.
2. That the six levels of Likelihood and the definitions suggested in the methodology for those levels are all appropriate.
3. That the four levels of Impact and six headings for types of Impact (service, legal, reputational, financial strategic and environmental) as described in the methodology are all appropriate.
4. That the four levels for each type of Impact as defined in the methodology are all appropriate.
5. That the Risk Matrix and the division within it of Members’ and Employees’ decision making roles in relation to the acceptance of risks is appropriate.

5.17 If Members are satisfied with the recommended Risk Appetite and Risk Assessment Methodology it is also recommended that the Assistant Managing Director be authorised to amend the Council’s Risk Management Policy, Strategy and Implementation Plan to reflect these changes.

6. Alternative Options (if any)

6.1 Ask officers to amend the recommended Risk Appetite and Risk Assessment Methodology to reflect better Members’ views on these matters, if necessary reporting back to a subsequent meeting of the Executive. This is the appropriate course if Members are not satisfied in respect of any of the issues highlighted in paragraph 5.18 in this Report.

6.2 Take no action. This is strongly not recommended.

Contact Officer: Bill Norman, Assistant Managing Director
Extension: 7140

IMPLICATIONS, CONSULTATION AND OTHER INFORMATION

Part 1

These sections may be completed by the Report author but must be agreed by named officers in the Legal, Finance, Human Resources and Property Divisions. If these are not completed and agreed the Report will not be included on the agenda.

Does the proposal have implications for the following issues? Insert name of responsible officer

Legal (including Human Rights)	As set out in the Report	Bill Norman
Financial – Revenue	As set out in the Report	Richard Thorpe
Financial – Capital Plan	As set out in the Report	Richard Thorpe
Human resources (including equal opportunities)	As set out in the Report	Clare Armour
Property	As set out in the Report	Sam Partridge

Part 2

Does the proposal have implications for the following issues?		Please give details as appropriate
Sustainability	Yes	Potentially yes
Crime and Disorder	Yes	Potentially yes
*OfSTED Post Inspection Action Plan	Yes	Potentially yes
*Social Services Action Plan	Yes	Potentially yes
*Change Management Plan	Yes	Potentially yes

Part 3

Does the proposal have implications for the following Directorates? If so, please inform the relevant Director.		Please give details as appropriate
Managing Director	Yes	Potentially yes
Corporate Governance	Yes	Potentially yes
Finance	Yes	Potentially yes
Human Resources	Yes	Potentially yes
Learning and Cultural Services	Yes	Potentially yes
Environment Services	Yes	Potentially yes
Social Services	Yes	Potentially yes
Torbay Development Agency	Yes	Potentially yes

Part 4

Is the proposal contrary to or does it propose amendment to the Policy Framework or contrary to (or not wholly in accordance with) the Council's budget?		No
1. Details of the nature and extent of consultation with stakeholders and relevant select committees.		
2. Details and outcome of consultation, as appropriate.		

Part 5

Is the proposal a Key Decision in relation to an Executive function?		No

Part 6

Wards

All Wards

Appendices

Appendix 1 Corporate Risk Assessment Methodology

Documents available in Members' Room

None

Background Papers:
The following documents/files were used to compile this report:

None

Torbay Council – Corporate Risk Assessment Methodology

1. A ***risk*** is anything that could affect the ability of a service to meet its business objectives. Risks include bad things that do happen and good things that don't happen. This methodology provides a means of assessing risks consistently to enable fair comparisons to be made of the diverse risks occurring across the Council. This will help Members and employees prioritise actions and the allocation of resources. This methodology is to be used in assessing corporate risks, not day-to-day operational risks. It is not to be used in assessing, for example, the appropriateness of a care package for an individual. It is to be used, for example, in assessing the risks that may affect the ability of Adult Services to meet the objectives in its Business Plan.

2. Risk is measured through a combination of ***likelihood*** of occurrence and severity of ***impact***. This methodology gives numerical values to six levels (1 to 6) of likelihood (from "almost impossible" to "very significant") and four levels (1 to 4) of impact (from "negligible" to "catastrophic"). The higher the numerical value the greater the likelihood or impact. Multiplying the numerical values for likelihood and impact produces a numerical value for the ***Initial Risk*** (between 1 (1 x1) and 24 (6 x 4)). The levels of likelihood and impact are all described (see page 2) to help achieve corporate consistency in what are largely subjective judgements. Impact is also assessed under six headings (service, legal (including equalities), reputational, financial, strategic and environmental) (again, described on page 2). Where a proposal involves multiple risks, each must be individually assessed.

3. Applying ***control measures*** may reduce the likelihood and/or the impact of the Initial Risk. For example, decreasing the frequency of a high-risk activity will reduce the likelihood of occurrence, whilst insuring against a risk will reduce the potential financial impact on the Council. Appropriate control measures must always be considered when assessing risks. The higher the Initial Risk, the more rigorous must be the consideration and application of control measures.

4. Multiplying the numerical values for likelihood and impact ***after*** applying control measures produces a numerical value for the ***Final Risk*** (between 1 (1 x1) and 24 (6 x 4)). Where a proposal involves multiple risks the highest figure determines the overall Final Risk.

5. The decision must now be made on proceeding with the proposal (i.e. ***accepting*** the Final Risk). This judgement will depend upon the level of benefit to be derived compared with the risk to be accepted. Final Risks are split numerically into three categories. This determines who may take the decision to accept the risk and proceed. Service Managers may accept ***Low Risks*** (1 to 7). Directors and Assistant Directors, in consultation with an Executive Member, may accept ***Intermediate Risks*** (8 to 14). However, only the Executive, Council or a Committee may authorise acceptance of ***High Risks*** (15 to 24). This is summarised in the ***Risk Matrix*** below:

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	4	4	8	12	16
	3	3	6	9	12
	2	2	4	6	8
	1	1	2	3	4
		1	2	3	4
		Impact			

Key

Final Risk Score	Final Risk Category	Decision Maker
1-7 (Green)	Low	Service Manager
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15-24 (Red)	High	Council/Executive/Committee

Torbay Council – Corporate Risk Assessment Methodology

The following definitions are intended to give general guidance by way of descriptions and examples. They should be applied with common sense.

If a proposal creates multiple risks, the highest score determines the overall risk level. E.g., if a proposal (after applying appropriate control measures) leaves a borderline likelihood (4) of a marginal financial loss (2) (i.e. an Intermediate Final Risk (4 x 2 = 8)) ***and*** a significant likelihood (5) of a serious adverse impact on the environment (3) (i.e. a High Final Risk (5 x 3 = 15)) the overall Final Risk of the proposal is 15 ("High") and the decision ***must*** be taken by Members.

Likelihood

Almost Impossible (1)	A risk that has not occurred before and which may reasonably be regarded as extremely unlikely (less than 1% chance) to occur within the next 10 years	**Borderline (4)**	A risk that may have occurred before and is more likely to happen than the "Insignificant" category; but which may reasonably be regarded as unlikely to happen (less than 50% chance) within the next 2 years
Very Insignificant (2)	A risk that may have happened before and/or is more likely to happen than the "Almost Impossible" category; but which may reasonably be regarded as very unlikely (less than 5% chance) to occur within the next 10 years	**Significant (5)**	A risk that may have occurred before and is more likely to happen than the "Borderline" category; but which may reasonably be regarded as unlikely (or no more likely than not) to happen (50% chance or less) within the next 12 months
Insignificant (3)	A risk that may have occurred before and is more likely to happen than the "Very Insignificant" category; but which may reasonably be regarded as unlikely to happen (less than 50% chance) within the next 5 years	**Very Significant (6)**	A risk that may have occurred before and is more likely to happen than the "Significant" category: i.e. that is more likely than not to happen (greater than 50% chance) within the next 12 months

Impact

	Service	Legal (including Equalities)	Reputational	Financial	Strategic	Environmental
Negligible (1)	Negligible or no adverse impact on services or stakeholders	No reprimand or sanctions	Negligible or no adverse effect to reputation	Loss of up to £3,000	Negligible or no adverse impact on strategy	Negligible or no adverse impact
Marginal (2)	Minimal adverse impact on services or stakeholders	Minor or technical reprimand or sanctions	Some adverse effect, short term impact	Loss of between £3,000 to £25,000	Minor part of strategy delayed or not delivered, no adverse effect on total strategy	Marginal adverse impact on small part of transport infrastructure, minor, localised damage to l area, short term harm to natural environment, transport network or buildings or localised weather damage
Serious (3)	Significant adverse impact and/or some material loss of services or serious impact on stakeholders	Significant breach leading to reprimand or sanctions; finding of maladministration by Ombudsman; challenge to accounts	Adverse effect that leads to sustained adverse coverage in local press	Loss of between £25,000 to £100,000	Main component of the strategy significantly delayed or not delivered leading to short term impact. Failure to meet non-key local and national PIs	Loss or long term disruption to important part of transport infrastructure, material damage to a significant part of built environment, significant long term harm to natural environment, or severe weather damage
Catastrophic (4)	Major disruption or critical adverse impact on services or stakeholders	Major breach leading to Government intervention or discontinuance of service or prosecution	Adverse effect with long term impact, e.g. Government intervention or adverse CPA rating	Loss of over £100,000	Key part of Strategic Plan, or Community Plan materially delayed or not delivered, resulting in key priorities not being delivered. Failure to meet key local or national PIs	Major loss of or very serious long-term disruption to transport infrastructure, major damage to very significant part of the built environment, landslide affecting a large area, or very severe weather damage